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MECHANISMS FOR COOPERATIVE IMPLEMENTATION

Note by the secretariat

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I. INTRODUCTION

A. Mandates

1. The Kyoto Protocol[1] provides for the establishment of three new mechanisms of cooperative implementation which may be used by Annex I Parties to supplement domestic actions to fulfil their emission limitation and reduction commitments under Article 3.[2] Article 6 on joint implementation (JI)[3] provides for transactions among Annex I Parties whilst Article 17 on international emissions trading (IET)[4] provides for such cooperation among those Parties, whose quantitative commitments are inscribed in Annex B to the Protocol. Article 12 on a clean development mechanism (CDM) extends the scope of cooperation to non-Annex I Parties, thereby contributing to their sustainable development and to the ultimate objective of the Convention. Through the CDM, particularly vulnerable developing country Parties should also be assisted in meeting the costs of adaptation to the adverse effects of climate change.[5] The term cooperative implementation is used in this note as a collective heading for the three new mechanisms established under the Kyoto Protocol as well as for activities implemented jointly (AIJ) which, under a pilot phase, have been undertaken since 1995 according to the mandate contained in decision 5/CP.1 (FCCC/CP/1995/7/Add.1).

2. The Protocol provisions regarding the three mechanisms vary in the detail of their content and in procedures for taking decisions on implementation. Article 6 on JI and Article 12 on the CDM establish frameworks to be filled out by the Conference of the Parties to the Convention serving as the meeting of the Parties to the Protocol (COP/MOP) at its first session (COP/MOP 1) or later. Article 17 is a general enabling clause that provides for the Conference of the Parties *to the Convention* (emphasis added) (COP) to define the arrangements for IET, though it may be presumed that these will be confirmed by COP/MOP.

3. In adopting the Kyoto Protocol, the Conference of the Parties at its third session (COP 3) set in motion a process of preparatory work for a "prompt start" to the work of COP/MOP 1 (decision 1/CP.3, paragraph 6). This process encompasses the work required to give effect to the three new cooperative mechanisms. It enables the COP, supported by the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Subsidiary Body for Implementation

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[1] For the full text of the Kyoto Protocol, see decision 1/CP.3 in document FCCC/CP/1997/7/Add.1.

[2] "Article" means, unless otherwise indicated, an article in the Kyoto Protocol.

[3] "Joint implementation" is suggested as a short term for the mechanism defined in Article 6.

[4] Owing to possible confusion with domestic emissions trading schemes, trading under Article 17 will be referred to as "international" emissions trading (IET).

[5] Articles 6 and 17 are to be considered in conjunction with Article 3.10 and 3.11; Article 12 is linked to Article 3.12.

(SBI), to prepare decisions on these mechanisms for adoption by COP/MOP 1 or, as in the case of emissions trading, decide on the matter itself. The allocation of work arising from this mandate is the subject of a proposal by the Chairmen of the SBSTA and the SBI to the eighth sessions of these subsidiary bodies (FCCC/SB/1998/1).

4. By the same decision, COP 3 also identified a number of tasks related to the three mechanisms to be undertaken by COP 4, on the basis of preparatory work by the SBSTA and the SBI, as well as by the secretariat with the guidance of the Chairmen (decision 1/CP.3, paragraphs 5 (b), (c) and (e)).

5. These two related actions by COP 3 constitute the mandates for the eighth sessions of the SBSTA and the SBI to carry forward the work of implementing the three mechanisms for cooperative implementation envisaged by the Kyoto Protocol.

B. Scope of the note

6. This note by the secretariat seeks to focus discussions on some key issues regarding the design and functioning of the three new mechanisms. They concern mandates and matters related to individual mechanisms, as well as cross-cutting issues. The note addresses each mechanism separately in view of their different origins, approaches, participants and possible applications. Reference is, however, made to similarities between the mechanisms, in particular where coordination of work on methodological and institutional issues and inter-institutional collaboration are concerned. The note suggests, in its concluding part, elements of a work programme up to and, to some extent, beyond COP 4. It draws upon the views submitted by Parties (FCCC/SB/1998/MISC.1), contains reflections by the secretariat and builds on its consultations with other organizations having activities, under way or planned, that could contribute to the design or operation of the mechanisms.

7. As a further input to the discussions, the secretariat will make available to Parties information on activities of intergovernmental and non-governmental organizations in areas of cooperative implementation (FCCC/SB/1998/MISC.2) and report orally on inter-institutional consultations aimed at facilitating the exchange of views on concepts and on work programmes. This information, apart from providing Parties with an overview of relevant activities, should provide the subsidiary bodies with a basis for inviting external contributions to their work on the three mechanisms.

C. Possible action by the SBI and the SBSTA

8. In addition to expressing their views on the issues and questions raised below, the SBSTA and the SBI may give guidance on the organization and sequencing of work on the three mechanisms as well as in the area of AIJ, taking into consideration chapter V below.

II. ISSUES CONCERNING MANDATES

9. Three assumptions regarding the mandates referred in section I.A. above require confirmation:

(a) While paragraphs 5 (b) and (c) of decision 1/CP.3 provide broad mandates for the design of emissions trading and JI (respectively "definition of relevant principles, modalities, rules and guidelines" and "elaboration of guidelines"), the explicit mandate in paragraph 5 (e) is limited to the implications of paragraph 10 of the article on the CDM (the provision for use of certified emission reductions obtained in the period 2000-2007 during the first commitment period). Nevertheless, it is assumed that the Parties will consider it prudent to undertake a comprehensive design exercise for the CDM, so that its operating procedures would be clear by the year 2000, i.e. by COP 5 in 1999;

(b) While the Kyoto Protocol does not make any reference to AIJ under the pilot phase (decision 5/CP.1), it is assumed that the technical work carried out under this mandate will be drawn upon, as appropriate, in designing the two project-based mechanisms, JI and CDM. This relates primarily to methodological issues such as determination of baselines, monitoring and reporting functions, but also to capacity-building in host and investor countries;

(c) Notwithstanding the differences in the provisions for taking formal decisions on the three mechanisms, it is assumed that the Parties to the Convention will seek to reach consensus on the design and operation of each of the three and that any consensus achieved before the entry into force of the Kyoto Protocol will be confirmed by the Parties to the Protocol at COP/MOP 1.

10. These assumptions affect the work programme on the design of the three mechanisms. The last also has to do with the confidence of Governments, organizations and corporations in the utility of their participation in early action to put the mechanisms into effect.

11. In addition to the core articles on cooperative implementation, several other articles in the Protocol are of relevance, if not explicitly linked, to the three new mechanisms. Any existing or future mandates related to these articles influence the scope and pace at which work on cooperative implementation proceeds. Among them are Article 18 (non-compliance), Article 4 (joint fulfilment of commitments), and Articles 5, 7 and 8 (in the context of JI as defined in Article 6) as well as Articles 21, 24 and 25 (on entry into force of the Protocol). Among the methodological issues to be considered in the context of project-based activities is the question of sinks (Article 3.3 as well as 3.4). Parties may wish to consider the requirements for synchronization of work in the context of the various mandates.

III. ISSUES CONCERNING INDIVIDUAL MECHANISMS

12. Joint implementation and IET provide Annex I Parties with the possibility to effect transfers/acquisitions of emission reduction units (ERUs), or any part of an assigned amount, among themselves and subtract/add these to their assigned amount of greenhouse-gas (GHG) emissions. Both mechanisms contain qualifications that such acquisitions shall be supplemental to domestic actions.

13. The CDM foresees that an Annex I Party investing in a sustainable development project in a non-Annex I Party may add resulting certified emission reductions (CERs) to its assigned amount. It may thus use them to contribute to compliance with part of its quantified emission limitation and reduction commitment under Article 3. As an additional function, the CDM will also assist particularly vulnerable developing country Parties in meeting the costs of adaptation to the adverse effects of climate change.

14. While recognizing the genesis and specific purpose of the CDM, it is useful to organize practical work on JI and the CDM in a manner which reflects that they are both project-based mechanisms with similarities related in particular to methodological issues (such as project baselines) as well as to institutional and capacity-building requirements. There are, however, differences concerning their starting dates, the specified character and type of project activities, certification procedures and their explicit linkage to funding adaptation measures. The extent and implications of these differences may need to be considered.

15. IET is an inventory-related mechanism. Its methodological requirements are largely distinct from those of the other two mechanisms, and linked to those needed for the assessment of compliance by Annex I Parties with their commitments (accounting, monitoring and verification).

16. This chapter addresses issues related to the design of each of the three new mechanisms under the Protocol and points at areas of relevance to more than one mechanism. Parties are invited to react to the issues presented. The mechanisms will be taken up in the sequence project-based mechanisms (JI, CDM) followed by the inventory-related mechanism (IET).

A. Project-based mechanisms (JI and CDM)

1. General issues

17. The secretariat's approach to the two project-based mechanisms is based on the following understandings, to which reactions are sought:

(a) Projects under JI and the CDM are subject to approval by each Party involved; in the case of the CDM, this would include approval that projects assist non-Annex I Parties in achieving sustainable development;

(b) JI and the CDM are intended to be financed mainly by new private investment, attracted by the prospect of access to emission reductions "offshore" ('emission reduction units' and 'certified emission reductions', respectively) at lower cost than those available domestically. Public finance may also be engaged through these mechanisms, as appropriate;

(This presumes that domestic arrangements in Annex I Parties for meeting Article 3 commitments would provide incentives to firms, or sectors, to seek emission reductions at least cost. It also presumes that private as well as public entities would be authorized to participate in the mechanisms.)

(c) Public finance, including that of publicly-funded international and regional institutions, will be needed to facilitate the flow of private funds through the mechanisms; this role can be exercised in different forms and through diverse channels;

(Facilitating functions could include project development, financial mediation and risk management.)

(d) The credibility of the two mechanisms will depend on the quality and consistency of the measurement of emission reductions from projects.

(It is presumed that the Parties will wish to pay particular attention to the methodologies and arrangements for such measurement. It will be important to ensure the integrity of the monitoring/reporting/auditing functions by separating them from those of arranging and providing finance.)

18. As regards the work programme on JI and the CDM, the secretariat assumes that the Parties will see merit in integrating technical work on common methodological, procedural and institutional issues, as well as on capacity-building. As indicated above, this work will draw upon the results of technical work under way in the pilot phase of AIJ as appropriate (see also chapter V below).

19. There are provisions in Article 6 as well as in Article 12 which can be found in one article, but not in the other. Parties may wish to express their views on these differences and their implications, so as to clarify their interpretation. Among these provisions are the following:

(a) **Starting dates:** JI does not contain a provision similar to the one under the CDM concerning the utilization during the first commitment period of CERs obtained from the year 2000 up to the beginning of the first commitment period;

(b) **Sequestration projects:** JI provisions refer to projects aimed at reducing emissions by sources or enhancing anthropogenic removals of GHGs by sinks. The CDM provisions refer to projects that provide reductions in emissions. In addressing this issue, consideration may be given to the fact that the reduction of deforestation is a means of reducing

emissions. (On the issue of land use change and forestry, see FCCC/SBSTA/1998/INF.1);

(c) **Adaptation:** Article 12 provides for the CDM to channel some funding to assist with the costs of adapting to the adverse effects of climate change. No such provision occurs in Article 6 on JI; (The same issue may be raised in the context of international emissions trading.)

(d) **Certification:** Article 12 explicitly provides for the certification of emission reductions from CDM projects. Article 6 is silent on certification. Parties may wish to consider modalities for certifying emission reductions from JI projects (such as monitoring the adherence to guidelines on baselines).

2. Joint implementation

20. Article 6 and Article 3.10 and 3.11 set out the mechanism for which the short term 'joint implementation' (JI) is suggested. Through this mechanism, projects which provide a reduction in emissions by sources, or an enhancement of removals by sinks, can be carried out among Annex I Parties and result in emission reduction units which can be used in meeting the commitments under Article 3 in a manner which is supplemental to domestic actions.

21. Decision 1/CP.3 calls for preparatory work on the elaboration of guidelines as provided for under Article 6 of the Protocol. Article 6 does indeed already spell out several provisions and contains the provision, in paragraph 2, that COP/MOP at its first session or as soon as practicable thereafter, may further elaborate guidelines, including for verification and reporting. The six elements in Article 6 guiding the design of the JI mechanism are as follows: (i) approval of project by Parties involved; (ii) additionality; (iii) compliance for acquiring Party with obligations under Articles 5 and 7 as a prerequisite for ERU acquisition; (iv) supplementarity of acquisition of ERUs to domestic actions; (v) participation of legal entities in generation, transfer and acquisition of ERUs subject to authorization by responsible Annex I Party; and (vi) crediting limitation during resolution of Article 8 issues.

3. Clean development mechanism

22. A CDM is defined in Article 12 of the Protocol and referred to in Article 3.12. It provides for an Annex I Party investing in a sustainable development project in a non-Annex I country to add CERs to its assigned amount of GHG emissions.

23. Whereas paragraphs 1-9 of Article 12 contain provisions to be further determined by COP/MOP (at its first session or unspecified), Article 12.10 is referred to in paragraph 5 (e) of decision 1/CP.3. It calls for preparatory work by the secretariat so that COP 4 can consider the analysis of the implications of Article 12, paragraph 10, of the Protocol whereby CERs obtained during the period 2000-2007 can be used to achieve compliance in the first commitment period. As the request does not delineate the extent of work required for the analysis of the implications of paragraph 10, it is prudent to consider design options for the CDM in a comprehensive manner

at an early stage.

24. Design objectives: Principal functions which need to be accommodated in designing the CDM include its governance, operational functions/certification processes, potential marketing of CERs, arranging for funding of mitigation projects and providing finance for adaptation projects. Differentiation between the CDM's function of facilitating mitigation projects and that of assisting in funding adaptation as specified in paragraph 8 needs to be borne in mind.

25. Governance: The organs which are to fulfil the governance functions of the CDM and which are named in the Protocol are, in hierarchical order, the COP/MOP, the Executive Board (EB), and the operational entities. Actors in the CDM process can be host and investor governments (which have to approve projects in which they are involved) as well as private and/or public entities whose involvement is subject to guidance by the EB as stated in paragraph 9.

26. The following functions to be fulfilled by COP/MOP, the supreme organ governing the CDM, are spelled out in Article 12:

(a) Exercising overall authority and providing overall guidance to the CDM;

(b) Playing a role in setting the scope of CDM activities through the provision that Annex I Parties may use the CERs accruing from such project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3, as determined by COP/MOP;

(c) Designating the operational entities that certify emission reductions;

(d) Ensuring that a share of the proceeds from certified project activities is used

(i) To cover administrative expenses, as well as
(ii) To assist particularly vulnerable countries in meeting costs of adaptation;

(e) Elaborating - at its first session (COP/MOP 1) - modalities and procedures to ensure transparency, efficiency and accountability through independent auditing and verification of project activities.

27. In particular the last-mentioned function which is specifically assigned to COP/MOP 1, i.e. the elaboration of modalities and procedures, will inform the design process through the criteria and objectives stated therein.

28. The CDM is supervised by the Executive Board (EB). It provides guidance on the involvement of private and/or public entities. Design aspects to be considered include the characteristics of the EB, for example its institutional locus and methods of work, the

relationship between COP/MOP and the EB and any administrative support that may be required.

29. Operational functions/certification: The operational functions and those related to certification span the entire project cycle of mitigation projects under the CDM. The respective functions for the organs and actors of the CDM - the EB, operational entities and private and/or public entities - need to be determined and modalities/options spelled out. In doing so, it is important to clearly distinguish and separate finance and auditing functions.

30. Functions to be fulfilled by the EB in this context require further definition, in particular in response to the following questions:

(a) To what extent is the EB involved in the project cycle? How would CDM criteria such as sustainability and additionality be addressed in an operationally feasible manner? What are the implications of paragraph 6, which mentions 'certified project activities' (who certifies?), i.e. how active will be the role of the EB in project identification (who identifies through which means, such as a project 'bazaar' on a Web site?), in the determination of project eligibility and, finally, a priori project certification?

(b) What is the process and what are the criteria (rules) for identifying and monitoring operational entities - to be designated by the COP/MOP - which are to certify emission reductions from each project (in the light of 'modalities and procedures' established by COP/MOP1)?

(c) What are the elements of the 'guidance on the involvement of private and/or public entities' (link to operational functions)?

31. Issues to be addressed concerning operational entities include the definition of appropriate eligibility criteria for their participation, the extent and procedures of their certifying operations and, importantly, the provisions built into the system for assuring the adherence to standards.

32. In defining the role of private and/or public entities (host and investor Party(ies)), the following issues need to be addressed:

(a) What are the procedural and functional requirements for the entities to participate in project activities resulting in certified emission reductions and acquisition of such reductions?

(b) How is ownership - public or private - of CERs defined? Could host countries or their legal entities be owners and for which purpose?

(c) What is the relationship between private entities and the State in the host country of the project and in the investor country (impact on pursuit of policies and programmes in the light of national priorities; accountability)?

(d) Are any capacity-building activities required to facilitate participation in the CDM by public and private entities? If so, which institutions could carry out such activities?

33. According to Article 12.6, the CDM is to assist in arranging funding for certified project activities resulting in emission reductions (mitigation projects). The following design questions need to be addressed with respect to this function:

(a) What are the implications of Article 12.6, e.g. in relation to the importance of institutional separation of certification and arranging of funding?

(b) How is assistance for mitigation projects to be effected (grants, technical assistance, project development) and who would carry out this function?

(c) What could be the respective roles of private and public finance?

34. An additional function of the CDM could be the marketing of CERs generated by such certified project activities.

35. A further issue relates to the possible ownership of CERs by host countries of CDM projects. What would be the modalities for a host country to own CERs and what options would there be for their use (including the determination of the price per unit)?

36. Another aspect of the CDM concerns the share of the proceeds from certified project activities which are to be used for covering administrative costs and for funding adaptation measures (Article 12.8). Questions in this context include:

(a) What is the relationship between the provisions in Article 12.8 on assistance to 'meet the costs of adaptation' and Article 4.4 of the Convention?

(b) How can developing country Parties that are 'particularly vulnerable to the adverse effects of climate change' be defined and eligibility for assistance determined (role of IPCC)?

(c) What is the nature of the assistance to be provided (e.g. grants, technical assistance, project development) and what institutional arrangements are required for this?

(d) What is the scope of administrative expenses to be covered?

(e) What are 'the proceeds from certified project activities' and what is an appropriate 'share' of such proceeds to be used for the above purposes?

4. The AIJ pilot phase

37. COP 1 established AIJ under the pilot phase through decision 5/CP.1. Since its inception in 1995, this has given rise to 75 projects in 17 host countries and by 5 investor countries (as of March 1998). While the pilot phase has allowed for valuable experience to be built up in host and investor countries alike - ranging from the approval process (ensuring that national development and environment priorities are met), methodological questions such as the determination of baselines to capacity-building and related research activities - the core issue of crediting was, however, absent. The range of features which are common to AIJ, JI and CDM and experience from the AIJ under the pilot phase could be usefully employed in the design process of the project-based activities for which credits can be obtained.

B. Inventory-related mechanism: international emissions trading

38. A framework for IET among Annex I Parties is contained in Article 17, and Article 3.10 and 3.11. Article 17 further calls on the COP to define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability. Decision 1/CP.3, paragraph 5, assigns this task to COP 4 for consideration.

39. In its most basic form, IET could consist of the exchange of parts of assigned amounts between eligible Parties, through a system of "double-entry book-keeping" as envisaged in Article 3.10 and 3.11. This could be supplemented by domestic emissions trading schemes where a Party allocates part of its assigned amount to legal entities under its jurisdiction/within its territory, for example to industrial sectors, directly to private companies, and/or to brokers. More sophisticated, market-based, trading arrangements would be required if Parties wish to explore arrangements whereby such legal entities would be able to engage in cross-border IET.

40. An adequate national monitoring and reporting system would need to ensure that the international reporting obligations of a Party are met, in accordance with Article 5 and Article 7. Also, if IET is to be possible at an early date and under uncertainty concerning eventual compliance on the part of the transferring Party (seller), a trading scheme may need to be backed through provisions to be defined, such as insurance. Parties would thus need to determine the prerequisites for engaging in IET, as well as eligibility criteria.

41. In the period towards and during the first commitment period, knowledge will emerge on several issues which may have a bearing on the scope and credibility of the IET mechanism. On the one hand, the impact of policies and measures of Annex I Parties on their GHG emissions will become increasingly apparent, and, by the year 2005, demonstrable progress will be assessed. On the other hand, provisions may be devised which affect the costs of non-compliance - and thus of measures to achieve compliance, such as IET - to these Parties.

42. Article 17 calls for the definition of 'principles' for IET. Since the Protocol is guided by the principles set out in Article 3 of the Convention, it is assumed that any discussion of

principles will be grounded in that article, including issues concerning equity and competitiveness.

43. A key issue is the qualification in Article 17 that 'any such trading system shall be supplemental to domestic actions'. How should this provision be interpreted and put into practice (see also paragraph 49 (a) below)?

44. A further key issue in the elaboration of IET concerns participation. Article 17, referring to Article 3, defines participation in IET as including Annex I Parties which have agreed to limit their GHG emissions to the assigned amount as specified in Annex B for the purposes of fulfilling their commitment under Article 3. The participation of actors other than Parties, such as private companies and legal entities, has not been mentioned in Articles 17 and 3.10 and 3.11. While domestic emissions trading rules could be set by sovereign States, the relationship between such domestic systems and international emissions trading will need to be determined. Also, no Parties other than Annex I Parties are included. Questions in this context are:

(a) What would be the modalities for the participation of private or public legal entities in IET, taking into account the need to maintain Party accountability?

(b) Is there a need for a certain compatibility of rules between domestic emissions trading systems and international emissions trading? If so, how could this be accomplished?

(c) How could issues of market power in IET be addressed?

45. Parties may wish to pronounce themselves on the linkages in work schedules between the design process of IET and methodological work aimed at improving accounting and national systems (Article 5) as well as work on determining and addressing non-compliance (Article 18). Parties may further wish to indicate how the balance between allowing for a flexible market mechanism and the need for rules and regulations is to be struck in the design of a credible IET. In this context, the issue of transaction costs could be addressed. If an IET market is to function with as much information, transparency and a calculable risk concerning compliance as possible, confidence in accounting systems will be essential. The desired sophistication of such systems may imply additional direct and indirect transaction costs.

46. An additional question relates to the concern that transfers of assigned amounts under the IET may not correspond to genuine reductions in emissions. How could such concerns be addressed?

47. A Party which had transferred parts of assigned amounts to another Party through IET could find itself in non-compliance at the end of a commitment period. How should this potential situation be addressed? Issues to be considered include:

(a) Should the non-compliance of the transferring Party impact on the validity of its

past emissions transfers? If so, how? For instance, what would be the liability consequences of such a situation on the transferring and/or acquiring Party?

(b) How could uncertainty concerning compliance best be minimized and potential problems of compliance identified before its assessment at the end of the first commitment period?

(c) What risk management approaches (e.g. insurance) could be employed to deal with uncertainty concerning compliance?

IV. CROSS-CUTTING ISSUES

48. Ultimately, the three new cooperative implementation mechanisms provide for transactions in units of GHG. On the assumption that these transactions will be market-based, there will be a tendency for the unit value of reductions to be equalized under the three schemes. It is envisaged that the Parties may wish to anticipate such trends in their design of the three mechanisms.

49. Guidance is particularly required where provisions may or may not apply to more than one mechanism and an indication should be given whether differentiation should be maintained or an effort be made at harmonization. Certain specific assumptions and questions to be addressed are as follows:

(a) **Supplementarity:** Transactions under JI and IET are to supplement domestic actions by Annex I Parties to meet their commitments under Article 3 of the Protocol. How would the provision 'supplemental to domestic actions' be operationalized (basis of calculation)? Under the CDM, Annex I Parties may use the CERs to 'contribute to compliance with part of their quantified emission limitation and reduction commitments' as determined by COP/MOP (Article 12.3). Will there be a determination of the overall extent of supplementarity? Will shares be attributed to each mechanism?

(b) **Participation of private entities:** What arrangements will be needed to ensure the accountability of individual Parties for transactions undertaken by private entities, including transnational corporations, under their authority?

V. PROPOSED ACTIVITIES

50. Parties may wish to review the proposed work to be undertaken before COP 4. Elements of work on each mechanism are outlined below. In each case, the subsidiary bodies are invited to indicate the timing and sequencing of work, the priorities to be observed in preparation for COP 4 and what work may need to continue beyond that. They are also invited to determine

which elements of work they will undertake themselves, in formal sessions or informal frameworks, and on which they seek inputs and/or support activities from the secretariat or from other organizations. In the last-mentioned case, they may also indicate whether, in certain instances, information and proposals should be submitted directly or compiled and synthesized.

51. The Chairmen of the two subsidiary bodies have expressed interest in receiving information on activities and plans of intergovernmental and non-governmental organizations with particular expertise and/or interest in relation to the three mechanisms. The secretariat has convened an inter-organization meeting for the purpose of collecting such information; it will provide Parties with a document compiling the information (FCCC/SB/1998/MISC.2), together with an oral report at the eighth sessions. Collaboration and exchange of experience will be further strengthened with relevant United Nations bodies and inter-governmental and non-governmental organizations through participation in workshops, the organization of forums on cooperative implementation mechanisms, and the ongoing improvement of the Web site.

52. Some of this work may be undertaken within the existing resources of the secretariat and other organizations. The secretariat has given priority to this area of work in its proposal for deploying "post-Kyoto" resources (FCCC/SBI/1998/3). However, given the scale of the work and the need to undertake it expeditiously, supplementary funding needs are likely to arise, for the secretariat and for other organizations.

53. **Work related to joint implementation**

(a) Implications of decision 1/CP.3, paragraph 5 (c) need to be determined and the scope of work on further guidelines, including a timetable reflecting options for the implementation of Article 6 provisions, should be delineated. Linkages with work schedules on Articles 5, 7 and 8 need to be borne in mind;

(b) Methodological issues: In the design of guidelines, practical options on several issues need to be developed. The following is proposed:

(i) Concerning the determining of baselines (such as the development of a list of feasible technologies, e.g. in a regional context) and on topics such as monitoring and reporting, work undertaken during the AIJ pilot phase could be drawn upon and suitably expanded;

(ii) Concerning issues related to the certification/crediting of ERUs obtained through JI projects, this new area of work needs to be developed and experience gained in collaboration with other institutions which are anticipating to undertake efforts;

(iii) Work on sinks (Article 3.3) and on Articles 5, 7 and 8 needs to be reflected upon as it evolves;

(c) Institutional and related issues: Capacity-building experience gained during the ongoing AIJ pilot phase needs to be further monitored and evaluated. This could provide a basis for designing relevant provisions in the guidelines on JI. Additional work is needed to identify new and expanded institutional, technical, legal and human resource requirements arising from monitoring, verification and the certification process. Parallels to similar work carried out in the context of the CDM may be explored. Activities which are useful in this context include the exchange of experience and national/regional specificities through workshops which elaborate on practical options (leading to the identification of 'best practices') which are found to be most suitable to the needs of both host and investor countries. Of particular interest are the definition of and guidelines for the operation of legal entities.

54. **Work related to the clean development mechanism**

(a) Implications of decision 1/CP.3, paragraph 5 (e) need to be determined and the scope of work on the CDM, including a timetable reflecting options for its implementation by the year 2000, should be delineated;

(b) Methodological issues: In the design of the CDM, practical options on several issues need to be developed. The following is proposed:

(i) Concerning the determining of baselines (such as the development of a list of feasible technologies, e.g. in a regional context) - in particular in view of the sustainable development provision - and on topics such as monitoring and reporting, work undertaken during the AIJ pilot phase could be drawn upon and suitably expanded;

(ii) Concerning issues related to certification/crediting of CERs obtained through CDM projects, approaches need to be developed and experience gained in collaboration with other institutions which are anticipating to undertake related efforts;

(c) Institutional and related issues: Modalities for capacity-building for successfully carrying out CDM projects need to be worked out (also the linkages to conceptual work under AIJ and JI), bearing in mind the experience gathered through the AIJ pilot phase. In addition, new needs as they emerge from intensified monitoring, reporting and verification as well as from the various certification requirements would need to be reflected in a capacity-building strategy related to CDM. The list of issues and questions in chapter III.A above would guide the detailed work.

55. **Work related to the AIJ pilot phase**

(a) Continuation of work begun under the AIJ pilot phase, such as the monitoring of projects, and the provision of a document to the eighth and ninth sessions of the subsidiary bodies with updates on activities by Parties;

(b) Preparation of the second synthesis report on the AIJ pilot phase (in accordance with decision 5/CP.1), given the larger number of projects now reported upon in accordance with the uniform reporting format (URF) and the longer duration of projects, the second synthesis report is likely to generate a significant body of knowledge and experience with AIJ. Based on more empirical data and improved reporting by Parties, valuable information can be derived, for example on the refinement of descriptors, and other URF elements;

(c) Work on at least four substantive areas which commenced during the pilot phase but which will remain of continued relevance for JI and CDM under the Protocol will be advanced before COP 4 (through technical papers and workshops):

(i) Capacity-building for cooperative implementation;

(ii) Definition of terminology (such as verification, reporting etc);

(iii) Determination of GHG reductions attributable to a project;

(iv) Monitoring and verification of projects.

56. **Work related to international emissions trading**

(a) Determining the implications of decision 1/CP.3, paragraph 5 (b) and identifying related work;

(b) Methodological issues:

(i) Application of *principles* of Article 3 of the Convention in the context of IET; identification of additional principles if so required;

(ii) Linked to the *modality* of IET contained in Article 3.10 and 3.11, there are several issues which require consideration, such as the timing of trade and liability as highlighted above;

(iii) Concerning *rules*: Article 17 calls for verification, reporting and accountability provisions to be defined. In the light of the modalities established in Article 3.10 and 3.11, issues concerning the validity of trades will need to be established in the context of determining the process

leading to assessing compliance;

(iv) Concerning *guidelines* for verification and accounting, links to work by the secretariat on monitoring and assessing of compliance, and on the provisions contained in Articles 5, 7 and 8 as well as in Article 18 need to be borne in mind and elaborated upon.

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AD HOC GROUP ON ARTICLE 13
Sixth session
Bonn, 5-9 June 1998
Item 2 (b) of the provisional agenda

ORGANIZATION AND PROPOSED SCHEDULES OF WORK OF THE SESSIONS: ADDITIONAL INFORMATION

Note by the secretariat

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I. INTRODUCTION

1. By its decision 1/CP.3 on the adoption of the Kyoto Protocol to the United Nations Framework Convention on Climate Change, the Conference of the Parties (COP) requested the Chairman of the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Chairman of the Subsidiary Body for Implementation (SBI) to give guidance to the secretariat on the preparatory work needed for consideration by Conference of the Parties, at its fourth session, of the matters listed in sub-paragraphs 5 (a) to (e) of that decision, and to allocate work thereon to the respective subsidiary bodies, as appropriate (FCCC/CP/1997/7/Add.1, decision 1/CP.3, para. 5).

2. Consideration of sub-paragraphs 5 (b), (c) and (e) of decision 1/CP.3, on matters related to emissions trading under Article 17 of the Kyoto Protocol, joint implementation under Article 6 and the clean development mechanism under Article 12, respectively, have been placed on the provisional agendas of both subsidiary bodies for their eighth sessions as sub-items 8 (b) to (d) (see FCCC/SBSTA/1998/1, paras. 3 and 6 and FCCC/SBI/1998/1, paras. 3 and 6).

3. In order to secure an appropriate balance between the work of the subsidiary bodies and avoid duplication and overlap, the Chairmen of the SBSTA and the SBI undertook to hold informal consultations on the organization of work on provisional agenda sub-items 8 (b) to (d) and to present a joint proposal based on these consultations (see FCCC/SBSTA/1998/1, paras. 7 and 9 and FCCC/SBI/1998/1, paras. 7 and 9). This joint proposal by the Chairmen is reproduced in section II below.

4. The Chairmen of the SBSTA and the SBI and the Chairman of the Ad Hoc Group on Article 13 (AG13) also undertook to propose a schedule for the sessions of the respective subsidiary bodies, pursuant to the above-mentioned informal consultations on the organization of work (see FCCC/SBSTA/1998/1, para. 11; FCCC/SBI/1998/1, para. 11 and FCCC/AG13/1998/1, para. 9). This proposed schedule can be found in the annex to this note.

II. ARRANGEMENTS ON SUB-ITEMS 8 (b) TO (d) OF THE PROVISIONAL AGENDAS OF THE SBSTA AND THE SBI

5. A joint meeting of the SBSTA and the SBI has been scheduled for the afternoon of Tuesday, 2 June to consider item 8. This joint meeting will provide an opportunity for Parties to make general statements, both on arrangements for the consideration of sub-items 8 (b) to (d) during the sessions and on the substance of the issues in question.

6. Based on the views expressed by Parties, the co-Chairmen will present a joint proposal on the organization of work for item 8 at a second joint meeting scheduled for the morning of Wednesday, 3 June.

Annex

PROPOSED SCHEDULES OF WORK OF THE SESSIONS

1. As arrangements between the SBSTA and the SBI for the consideration of item 8 remain to be decided, this item has been built into the schedules of work of both subsidiary bodies. Once a decision has been reached on this matter, the schedule for the sessions can be modified, as necessary. The Chairmen may also hold informal consultations on this item.

2. The attention of Parties is drawn to the change in date for the opening meeting of the AG13 from that stated in document FCCC/AG13/1998/1. The session will now be opened at 10 a.m. on Friday, 5 June.

2bis. A special workshop on Article 6 will be held that is expected to contribute to the work of the SBSTA in this area. The date and time for this event will be announced later.

3. The proposed schedules below should be considered as guides to assist Parties in planning their work. They may be subject to change, particularly in the second week, to reflect the pace of progress.

A. Proposed schedule of work for the eighth session of the SBSTA

	Tuesday 2 June	Wednesday 3 June	Thursday 4 June	Friday 5 June
10 a.m. to 1 p.m.	Item 1 Item 2 Item 3	Item 8 (*joint with SBI*)	Item 6 (a) to (c)	*Informals*
3 p.m. to 6 p.m.	Item 8 (*joint with SBI*)	Item 4 [Item 8]	Item 6 (d) to (e) Item 7	Item 5 Item 9

	Monday 8 June	Tuesday 9 June	Wednesday 10 June	Thursday 11 June	Friday 12 June
10 a.m. to 1 p.m.	*Informals*	*Informals*	Item 7 [Item 8] (*continued*)	*Informals*	*Informals*
3 p.m. to 6 p.m.	Item 2 (d) and (e) Item 4 (*continued*)	Item 5 Item 6 (*continued*)	*Informals*	[Item 8] Item 9 (*continued*)	Item 10

B. Proposed schedule of work for the eighth session of the SBI

	Tuesday 2 June	Wednesday 3 June	Thursday 4 June	Friday 5 June
10 a.m. to 1 p.m.	Item 1 Item 2 Item 3(a)	Item 8 (*joint with SBSTA*)	Item 3 (b) Item 4	Item 9 Item 10 Item 11
3 p.m. to 6 p.m.	Item 8 (*joint with SBSTA*)	Item 5 Item 6	Item 7 [item 8]	*Informals*

	Monday 8 June	Tuesday 9 June	Wednesday 10 June	Thursday 11 June	Friday 12 June
10 a.m. to 1 p.m.	Item 3 Item 4 (*continued*)	Item 2 (d) and (e) [Item 8] (*continued*)	Item 5 Item 6 (*continued*)	Item 9 Item 10 Item 11 (*continued*)	*Informals*
3 p.m. to 6 p.m.	*Informals*	*Informals*	Item 7 [Item 8] (*continued*)	*Informals*	Item 12

C. Proposed schedule of work for the sixth session of the AG13

	Friday 5 June	Saturday 6 June	Monday 8 June	Tuesday 9 June
10 a.m. to 1 p.m.	Item 1 Item 2	Item 3 (*continued*)	Item 3 (*continued*)	Item 3 (*continued*)
3 p.m. to 6 p.m.	Item 3	Item 3 (*continued*)	Item 3 (*continued*)	Item 4

D. Consolidated proposed schedule of formal subsidiary body meetings

	Tuesday 2 June	Wednesday 3 June	Thursday 4 June	Friday 5 June	Saturday 6 June
10 a.m. to 1 p.m.	SBSTA (11 a.m.)	SBSTA SBI (*joint meeting*)	SBSTA	SBI	AG13
	SBI		SBI	AG13	
3 p.m. to 6 p.m.	SBSTA SBI (*joint meeting*)	SBSTA	SBSTA	SBSTA	AG13
		SBI	SBI	AG13	

	Monday 8 June	Tuesday 9 June	Wednesday 10 June	Thursday 11 June	Friday 12 June
10 a.m. to 1 p.m.	SBI	SBI	SBSTA	SBI	
	AG13	AG13	SBI		
3 p.m. to 6 p.m.	SBSTA	SBSTA	SBI	SBSTA	SBSTA
	AG13	AG13			SBI

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